

REPORT OF EXAMINATION
OF THE
NORTH AMERICAN TITLE INSURANCE
COMPANY

AS OF
DECEMBER 31, 2005

Participating State and
Zone:

California

Filed: May 10, 2007

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San Francisco, California
January 31, 2007

Honorable Alfred W. Gross
Chairman, NAIC Financial
Condition (EX4) Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Kent Michie
Secretary, Zone IV-Western
Commissioner of Insurance
Department of Insurance, State of Utah
Salt Lake City, Utah

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Director and Commissioner:

Pursuant to your instructions, an examination was made of the

NORTH AMERICAN TITLE INSURANCE COMPANY

(hereinafter referred to as the Company) at its home office located at 2185 North California Street, Walnut Creek, California 94596.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2001. This examination covers the period from January 1, 2002 through December 31, 2005, including any material transactions and/or events occurring subsequent to the examination date, and noted during the course of the examination. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination.

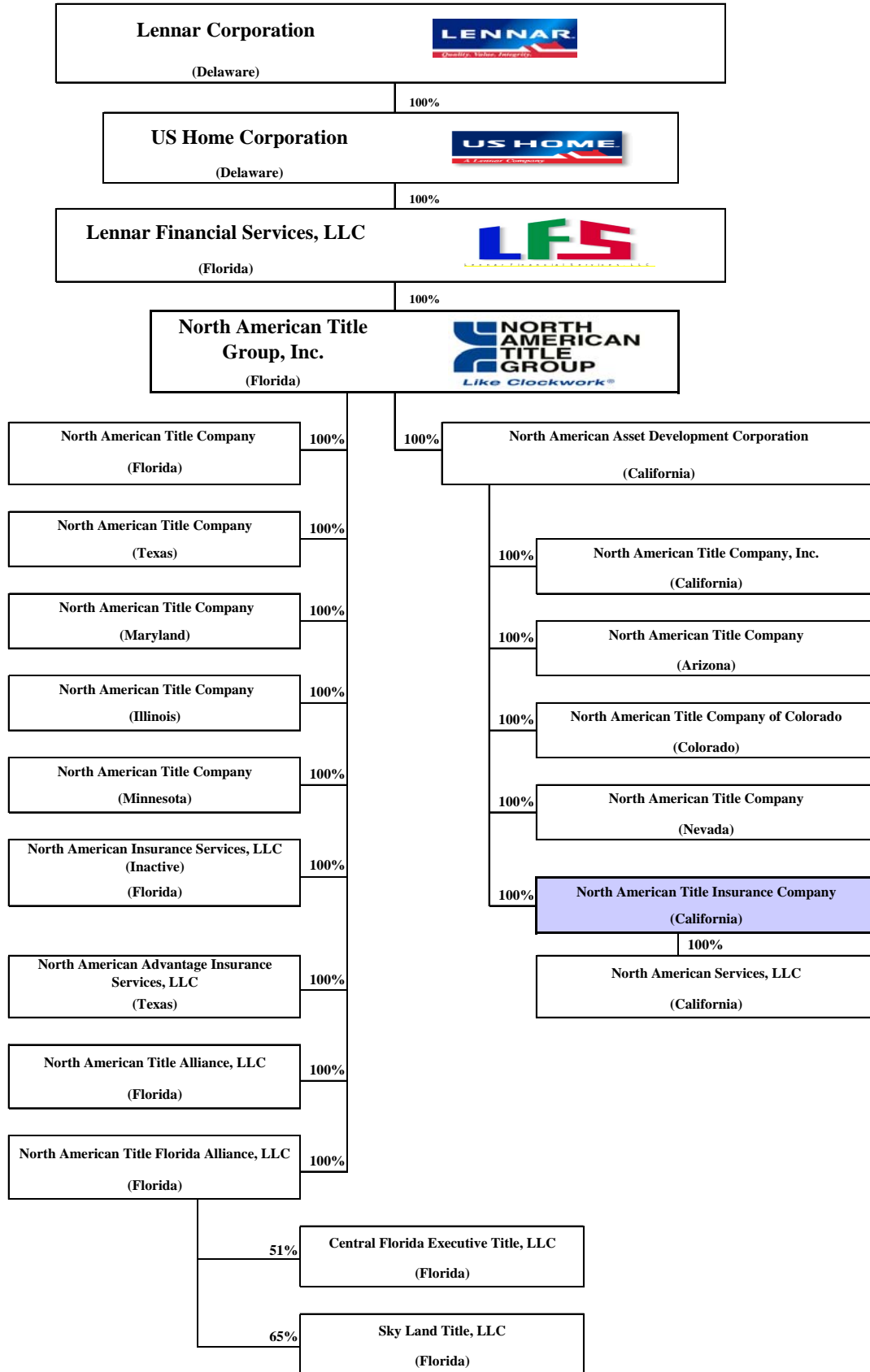
This examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions, an evaluation of assets, and a determination of liabilities as of December 31, 2005, as deemed necessary under the circumstances. In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: company history, fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; and sales and advertising.

SUBSEQUENT EVENTS

The Company obtained regulatory approval from the States of California (December 19, 2006) and Florida (December 29, 2006) to merge a Florida affiliated company, North American Title Insurance Corporation, with and into the Company. The merger of the two companies became effective January 1, 2007.

MANAGEMENT AND CONTROL

The Company is 100% owned by North American Asset Development Corporation (NAADC), an insurance holding company that is domiciled in California. The Company and NAADC are part of a holding company system in which Lennar Corporation (Lennar) is the ultimate controlling entity. Lennar is a Delaware corporation, whose principal business involves home building and activities that are related to home building. The following is an abridged organizational chart that depicts the relationship of the companies within the holding company system:



Management of the Company is vested in a four-member board of directors. A listing of the members of the board and principal officers serving on December 31, 2005 (and subsequent changes) follows:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Nancy A. Kaminsky (1) Miami, Florida	Controller Lennar Financial Services, LLC
David B. McCain (2) Miami, Florida	Chief Executive Officer Lennar Financial Services, LLC
Allan J. Pekor Miami, Florida	Chairman Lennar Financial Services, LLC
Linda L. Reed Miami, Florida	Executive Vice President Lennar Financial Services, LLC

Principal Officers

<u>Name</u>	<u>Title</u>
Emilio Fernandez	President
John T. MacMillan	Secretary and Executive Vice President
Jeffrey A. Wright (3)	Treasurer and Senior Vice President
Jeffrey P. Brown	Executive Vice President and General Counsel
Floyd E. Krause	Executive Vice President
Margery Q. Lee	Senior Vice President
Gytis L. Nefas	Vice President

(1) Resigned June 22, 2006 and replaced by Clotilde C. Keller on September 1, 2006.

(2) Resigned September 1, 2006 and replaced by Emilio Fernandez on September 1, 2006.

(3) Resigned Treasurer's position and replaced by Donnis L. Benson as Treasurer on January 1, 2007.

Inter-Company Agreements

Administrative Services Agreement: On September 29, 1995, the Company entered into an Administrative Services Agreement with North American Title Company, Inc. (NATC) and North American Asset Development Corporation (NAADC) whereby NATC and NAADC provide accounting, financial and general administrative services to the Company. Under the terms of the agreement, the Company is to reimburse all out-of-pocket expenses and in addition, pay a monthly flat administration fee of \$12,500. The fee is based on a cost study that was conducted years ago. This agreement has been terminated, effective January 1, 2006, as the services that were provided under the agreement have been brought back in-house or outsourced to the Company's newly formed subsidiary, North American Services, LLC, under the Master Services Agreement that is discussed below.

Master Services Agreement: On November 15, 2005, the Company executed a Master Services Agreement between and among North American Services, LLC (NAS), North American Title Group, Inc. (NATG), and certain subsidiary corporations or majority owned entities of NATG. The agreement which took effect on January 1, 2006 provides that NAS is to be responsible for employment, payroll, general administrative, benefits administration, management reporting, administrative support, information technology support, and personnel services on behalf of the participating companies to this agreement. The agreement also provides that all employees of each participating company shall become employees of NAS as of January 1, 2006. The fees for the services rendered are to be charged on a cost basis that is fair and reasonable in relation to the benefits received. This agreement was approved by the California Department of Insurance (CDI) on November 9, 2005.

Tax-Sharing Agreement: On September 1, 2005, the Company executed a tax sharing agreement with its ultimate parent, Lennar Corporation (Lennar), which provides for the consolidation of the Company's federal income tax liability with those of Lennar's subsidiaries. Prior to September 1, 2005, the Company filed its federal income tax on a consolidated basis with that of its parent subsidiaries (since March 1, 1999) but no written agreement covered this arrangement.

The current tax-sharing agreement does not address many of the items that are listed in the checklist for tax-sharing agreements that is available on the CDI public website. The Company also is not in compliance with California Insurance Code Section 1215.4(b)(3)(H) as it did not disclose the tax-sharing arrangement in its 2005 annual holding company Form “B” filing that was filed in April 2006 (the Company indicated in its Form “B” filing that it did not have a tax-sharing agreement). Additionally, there was no evidence in the Company board of directors’ minutes that the directors discussed or approved the tax-sharing agreement.

It is recommended that the Company amend its tax-sharing agreement to address the items on the CDI’s tax allocation checklist that are not addressed by the current agreement. It is recommended that the Company amend its Form “B” filing to properly disclose its tax-sharing agreement and submit the agreement to the CDI for approval pursuant to CIC Section 1215.5(b)(4). It is also recommended that the board of directors review the tax-sharing agreement and document its approval.

The Company stated that it acknowledges its oversight with respect to its tax allocation agreement and indicated that it plans to take corrective action to rectify the situation.

CORPORATE RECORDS

The Company was unable to locate its 2005 shareholders’ minutes. The Company informed the examiners that these minutes may have been lost or misplaced during the times that the minutes were reviewed by its internal and external auditors. It is recommended that the Company institute controls to ensure that its permanent corporate records are not lost or misplaced and that backup copies are maintained.

The Company indicated that it is in the process of instituting controls to ensure that its corporate records are available at all times.

The Company board of directors’ actions regarding authorization and approval of the Company’s investments did not satisfy the requirements of California Insurance Code (CIC) Sections 1200 and

1201 in that there was no evidence of approvals or prior approvals for investments made in 2002, 2003 and 2005. The directors did approve the 2004 investments in 2005; however, the approval was in the form of a blanket approval for all investments made in 2004, which in certain situations represented approval of investments that have already matured. It is recommended that the Company comply with the requirements of CIC Sections 1200 and 1201 and also institute procedures for the board to provide timely approvals of the Company's investments.

It was also noted that the Company was not conducting its business and affairs in accordance with its by-laws (e.g., holding annual shareholders meetings on the third Wednesday of January, electing officers annually, setting directors and officers' compensation, etc.). It is recommended that the Company adhere to its by-laws in conducting its business and affairs.

The Company indicated that it plans to adhere to its by-laws in conducting the business and affairs of the Company on a going forward basis.

TERRITORY AND PLAN OF OPERATION

At December 31, 2005, the Company is licensed to transact title insurance business in the District of Columbia and the following states:

Arizona	Nevada	South Carolina
California	New Jersey	Texas
Colorado	North Carolina	
Delaware	Oklahoma	

In 2006, the Company became licensed in the states of Florida, Illinois, Maryland, Minnesota, Pennsylvania, Virginia, and Wisconsin.

In 2005, the Company wrote \$104.1 million in direct written premiums of which \$79.8 million (76.7%) was written in California, \$10.9 million (10.4%) in Colorado, \$8.8 million (8.4%) in Arizona, and \$4.7 million (4.5%) in Nevada.

The Company's title policies are produced by five underwritten title companies as follows:

<u>State</u>	<u>Producers</u>
Arizona	North American Title Company (Arizona)
California	North American Title Company (California) California Land Title of Marin
Colorado	North American Title Company of Colorado
Nevada	North American Title Company (Nevada)

Except for California Land Title of Marin, all producers are affiliates of the Company.

REINSURANCE

Assumed

The Company did not assume any reinsurance during the period of this examination.

Ceded

At December 31, 2005, the Company was party to two ceded reinsurance agreements with First American Title Insurance Company (FATIC), an admitted California title insurer. One agreement covers the Company for business written in Colorado and the other agreement covers business written in the other states in which the Company is licensed. Under both agreements, FATIC assumes losses in excess of the Company's retention of \$3.5 million.

The Company, during the period of this examination, increased its retention on both of its reinsurance agreements as follows:

<u>Effective Date</u>	<u>Company Retention</u>
5/1/2002	\$2.0 million
6/1/2003	\$2.5 million
6/1/2004	\$3.0 million
6/1/2005	\$3.5 million

ACCOUNTS AND RECORDS

The Company is not in compliance with California Insurance Code (CIC) Section 1194.95, in recording its investment in electronic data processing equipment (EDP equipment) as an admitted asset. Additionally, the Company is not in adherence with Statements of Statutory Accounting Principles (SSAP) No. 16 by including nonoperating software as part of its EDP equipment. It is recommended that the Company nonadmit its EDP assets and adhere to SSAP No. 16. For the purpose of this examination, no adjustment was made to the Company's balance sheet as the amount involved was not considered material.

Although the Company reported paid-to-paid unallocated loss adjustment expense (ULAE) ratios that ranged from 35 to 48% during the period of this examination, the Company's actuary used an industry average ULAE ratio of 14% to project the Company's Schedule "P" ULAE reserve. It is recommended that the Company develop an ULAE allocation methodology that is based on employees' activities that are necessary to process claims or manage the claims settlement function. It is also recommended that the Company include all appropriate operating and overhead expenses in its ULAE calculation.

No adjustment was made to the Company's balance sheet as the result of its use of a 14% ULAE ratio as it was determined that no loss deficiency reserve was necessary. The Company's statutory premium reserve plus its known claims reserve at December 31, 2005, would more than cover the projected Schedule "P" losses and loss adjustment expenses even if a 35% ULAE ratio was applied to the Company's actuary reserves for losses.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2005

Operations and Investment Exhibit for the Year Ended December 31, 2005

Reconciliation of Surplus as Regards Policyholders from December 31, 2001
through December 31, 2005

Statement of Financial Condition
as of December 31, 2005

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 1,366,545	\$	\$ 1,366,545	(1)
Cash and short-term investments	41,216,203		41,216,203	
Title plants	1,863,687	513,687	1,350,000	
Investment income due and accrued	77,024		77,024	
Uncollected premiums and agents' balances in the course of collection	695,687		695,687	
Current federal income tax recoverable and interest thereon	221,428		221,428	
Net deferred tax asset	2,709,297	2,562,850	146,447	
Electronic data processing and software	36,858		36,858	
Furniture and equipment	7,486	7,486		
Receivables from parent, subsidiaries and affiliates	17,297		17,297	
Aggregate write-ins for other than invested assets	<u>104,507</u>	<u>104,507</u>	<u></u>	
Total assets	<u>\$48,316,019</u>	<u>\$ 3,188,530</u>	<u>\$45,127,489</u>	
<u>Liabilities, Surplus and Other Funds</u>				
Known claims reserve			\$ 1,074,982	(2)
Statutory premium reserve			19,862,004	
Other expenses			259,453	
Taxes, licenses and fees			44,800	
Current federal income taxes			45,298	
Payable to parent, subsidiaries and affiliates			5,407,247	
Aggregate write-ins for liabilities			<u>(7)</u>	
Total liabilities			26,693,777	
Common capital stock		\$ 2,700,000		
Gross paid-in and contributed surplus		2,771,391		
Unassigned funds (surplus)		<u>12,962,321</u>		
Surplus as regards policyholders			<u>18,433,712</u>	
Total liabilities, surplus and other funds			<u>\$45,127,489</u>	

Operations and Investment Exhibit
for the Year Ended December 31, 2005

Statement of Income

Operating Income

Title insurance premiums earned	\$102,126,986
Other title fees and service charges	<u>79,074</u>

Total operating income	102,206,060
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Deduct:

Losses and loss adjusting expenses incurred	\$ 2,344,914
Operating expenses incurred	<u>95,481,052</u>

Total operating deductions	<u>97,825,966</u>
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Net operating gain	4,380,094
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Investment Income

Net investment income earned	<u>\$ 725,219</u>
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Net investment gain	725,219
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Other Income

Aggregate write-ins for miscellaneous income	<u>\$ 223,638</u>
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Net income before federal income tax	5,328,951
Federal income taxes incurred	<u>2,241,545</u>

Net income	<u>\$ 3,087,406</u>
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Capital and Surplus Account

Surplus as regards policyholders, December 31, 2004	\$ 15,925,842
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Net income	\$3,087,406
Change in net deferred income tax	367,145
Change in nonadmitted assets	<u>(946,681)</u>

Change in surplus as regards policyholders	<u>2,507,870</u>
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Surplus as regards policyholders, December 31, 2005	<u>\$ 18,433,712</u>
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Reconciliation of Surplus as Regards Policyholders
from December 31, 2001 through December 31, 2005

Surplus as regards policyholders, December 31, 2001, per Examination			\$ 8,886,776
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$10,196,310	\$	
Change in net deferred income tax	193,975		
Change in nonadmitted assets		843,363	
Aggregate write-in for gains and losses in surplus	<u>14</u>	<u></u>	
Total gains and losses	<u>\$10,390,299</u>	<u>\$ 843,363</u>	
Increase in surplus as regards policyholders			<u>9,546,936</u>
Surplus as regards policyholders, December 31, 2005, per Examination			<u>\$18,433,712</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Cash and Short-term Investments

The Company uses two brokerage accounts with Comerica Securities, Inc. (Comerica) to invest in certificates of deposit (CDs) with financial institutions located within and outside of California. The amount of investment totals \$4,196,500. This situation causes compliance issues with the following California Insurance Code (CIC) Sections:

CIC Section 1100: CDs totaling \$2,000,000 that are held in a Comerica brokerage account are not in the Company's name, or that of corporate trustee or nominee, qualified custodian, subcustodian, or depository, or nominees. It is recommended that the Company conform to the requirements of CIC Section 1100 with respect to its investment holdings.

CIC Section 1104.1 and CIC 1104.9(b): Of the \$4,196,500 in CDs that are held in the two Comerica accounts, \$3,296,500 is on deposit with financial institutions that are located outside of California (and not with financial institutions that are in reciprocal states – CIC Section 1104.9(b)), which the examiners have determined to be in excess of reasonable business needs of the Company. Additionally, the CDs in the two Comerica accounts are held by Comerica in accounts that are outside of California. It is recommended that the Company structure and maintain its investments to conform to CIC Sections 1104.1 and 1104.9(b).

CIC Section 1104.9: The Company is not in compliance with CIC 1104.9 in maintaining \$4,196,500 of its CD investment with Comerica, as Comerica is not a qualified custodian. It is recommended that the Company either take physical possession of its CD investments or maintain them with its qualified custodian, Union Bank of California, in compliance with CIC Section 1104.9.

The Company has indicated that it is restructuring its investments to conform with the above-mentioned code section as its certificates of deposit and notes mature.

(2) Known Claims Reserve

A Casualty Actuary from the California Department of Insurance reviewed the Company's carried total Schedule "P" reserves and determined that they were reasonable. Furthermore, it was determined that no supplemental reserve was necessary because the Company's known claims reserve (\$1,074,982) plus its statutory premium reserve (\$19,862,004) exceeds the total Schedule "P" reserves (\$15,569,614).

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Inter-Company Agreements (Page 6): It is recommended that the Company amend its tax-sharing agreement to address the items on the California Department of Insurance's (CDI) tax allocation checklist that are not addressed by the current agreement. It is recommended that the Company amend its Form "B" filing to properly disclose its tax-sharing agreement and submit the agreement to the CDI for approval pursuant to California Insurance Code (CIC) Section 1215.5(b)(4). It is also recommended that the board of directors review the tax-sharing agreement and document its approval.

Corporate Records (Page 6): It is recommended that the Company institute controls to ensure that its permanent corporate records are not lost or misplaced and that backup copies are maintained. It is recommended that the Company comply with the requirements of CIC Sections 1200 and 1201 and also institute procedures for the board to provide timely approvals of the Company's investments. It is recommended that the Company adhere to its by-laws in conducting its business and affairs.

Accounts and Records (Page 9): It is recommended that the Company nonadmit its electronic data processing equipment asset and adhere to Statements of Statutory Accounting Principles No. 16.

Accounts and Records (Page 9): It is recommended that the Company develop an ULAE allocation methodology that is based on employees' activities that are necessary to process claims or manage the claims settlement function. It is also recommended that the Company include all appropriate operating and overhead expenses in its ULAE calculation.

Comments on Financial Statement Items - Cash and Short-term Investments (Page 14): It is recommended that the Company conform to the requirements of CIC Section 1100 with respect to its investment holdings. It is recommended that the Company structure and maintain its investments to conform to CIC Sections 1104.1 and 1104.9(b). It is recommended that the Company either take physical possession of its certificates of deposit or maintain them with its qualified custodian, Union Bank of California, in compliance with CIC Section 1104.9.

Previous Report of Examination

None

ACKNOWLEDGMENT

The cooperation, courtesy and assistance extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

Howard S. Wong, CFE
Examiner-In-Charge
Senior Insurance Examiner - Supervisor
Department of Insurance
State of California